

## Message Text

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ACTION STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01  
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10  
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00  
AID-05 SS-15 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02  
OMB-01 DOE-11 AF-10 ARA-10 EA-10 NEA-10 OIC-02  
/159 W

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P 101740Z MAR 78  
FM USMISSION GENEVA  
TO SECSTATE WASHDC PRIORITY 7083  
INFO AMEMBASSY OTTAWA

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ACTION STR PASS ELECTRICALLY

STR PASS CODEL

USMTN

E.O. 11652 N/A  
TAGS: MTN, ETRD  
SUBJECT: U.S. - CANADIAN BILATERAL OF MARCH 8, 1978;  
- NONFERROUS METALS

1. SUMMARY. USMTN DEL (HAMERSCHLAG, ET AL) MET WITH  
CANADIAN MTN DEL (CLARK ET AL) IN A BILATERAL FOCUSING  
ALMOST ENTIRELY ON NONFERROUS METALS AND SECURITY OF  
SUPPLY. THE MOST SIGNIFICANT DISCUSSIONS WERE ON CA-  
NADIAN FEDERAL AND PROVINCIAL MEASURES DESIGNED TO  
PROMOTE THE PROCESSING OF ORES AND METALS IN CANADA.  
ON THESE MEASURES, THE BEST THE CANADIANS COULD  
OFFER WAS TO "TALK TO THE PROVINCES" AND THEN ONLY  
IN THE CONTEXT OF A PACKAGE EMBRACING KEY PROVISIONS  
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OF THEIR RESOURCE-BASED SECTOR PROPOSALS. END SUMMARY.

2. NONFERROUS METALS.

- (A) USMTN DEL OPENED BY CONTRASTING OBJECTIVES OF  
THE U.S. NONFERROUS METAL INDUSTRY WITH THOSE OF THE  
U.S. PULP AND PAPER INDUSTRY. WHILE THE LATTER INDUSTRY

SAW SPECIFIC EXPORT OPPORTUNITIES, THE FORMER WAS MORE DEFENSIVE. IN TERMS OF DEVELOPING A COMMON STRATEGY WITH CANADA, VIS-A-VIS JAPAN AND THE EC, TRADE WAS FLOWING IN THE OPPOSITE DIRECTION; THESE TWO COUNTRIES WERE OFTEN THE PRINCIPAL SUPPLIERS OF U.S. NONFERROUS IMPORTS, PARTICULARLY FOR THE SEMI-FABRICATED PRODUCTS. ACCORDINGLY, U.S. INTERESTS IN THE NONFERROUS AREA WERE LESS IN HARMONY WITH CANADA'S.

- (B) CLARK WAS OBVIOUSLY DISAPPOINTED. HE ASKED SEVERAL TIMES WHETHER THE U.S. WOULD BE PRESSING THE EC TO COME DOWN TO THE U.S. OFFER RATE, IN EFFECT, ALLYING OURSELVES WITH THAT PORTION OF THE CANADIAN NONFERROUS SECTOR PROPOSALS. WE MADE IT CLEAR THAT IF WE PUSHED THE EC OR JAPAN FOR DEEPER-THAN-FORMULA CUTS, THE PUSH WOULD BE FOR ARTICLES IN WHICH WE HAD MAJOR EXPORT INTERESTS. IN ADDITION, WE WOULD MORE LIKELY BE EMPHASIZING NONTARIFF MEASURES RATHER THAN TARIFFS. ON SOME NONFERROUS PRODUCTS, WE NOTED, A SUCCESSFUL GOVERNMENT PROCUREMENT CODE WOULD DO MORE FOR TRADE EXPANSION THAN WOULD TARIFF REDUCTIONS.

- (C) CLARK STATED THAT IT WAS "VERY IMPORTANT" FOR CANADA THAT THE U.S. OFFER BE MAINTAINED AND THAT DUTIES IN THE EC AND JAPAN BE REDUCED, BUT HE ADMITTED THAT CANADA HAD NO STRATEGY OTHER THAN TO ASK FOR DEEPER-THAN-FORMULA CUTS. (COMMENT: CANADA'S FIRST STRATEGY, TO GET THE U.S. TO CARRY THE FIGHT FOR THEM, PRETTY LIMITED OFFICIAL USE

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CLEARLY WENT DOWN THE TUBES IN THE U.S. OPENING REMARKS. END COMMENT.)

### 3. SUPPLY ACCESS.

- (A) USMTN DEL OPENED BY RECALLING EARLIER CANADIAN DESCRIPTION OF THE BENEFITS OF A "NEUTRAL COMMERCIAL POLICY" WITH REGARD TO PLANT LOCATION FOR THE PROCESSING OF ORES AND METALS. HOWEVER, VARIOUS MEASURES WERE BEING MAINTAINED -- WE CITED EXAMPLES -- BY THE CANADIAN PROVINCES TO PROMOTE GREATER ORE PROCESSING IN THE PROVINCES. CANADA HAS STATED THAT THESE MEASURES WERE BEING TAKEN AS RESPONSES TO THE BARRIERS MAINTAINED AGAINST THE EXPORTS OF THE MORE PROCESSED PRODUCTS. IN VIEW OF THE U.S. OFFER TO REDUCE SHARPLY TARIFF BARRIERS, WE WOULD EXPECT CANADA TO ELIMINATE THOSE MEASURES.

- (B) CANADIAN MTN DEL RESPONDED BY CONTINUALLY SHIFTING THE DISCUSSION FIRST TO U.S. STATE SUBSIDIES, AND THEN TO "SOLUTIONS" FOUND IN THE CANADIAN SECTOR PROPOSALS. CLARK NOTED THAT TARIFF REDUCTIONS WERE

ONLY ONE PART; WHAT MORE WAS NEEDED WAS PROGRESS ON EMERGENCY ACTION ON IMPORTS (TO MAKE IT MORE DIFFICULT FOR RESOURCE-BASED INDUSTRIES TO OBTAIN RELIEF), AND DISPUTE SETTLEMENT. IN THE CONTEXT OF THIS SORT OF TOTAL PACKAGE, THE GOC WAS "PREPARED TO TALK TO THE PROVINCES."

- (C) WE OBSERVED A GROWING U.S. SKEPTICISM IN U.S. INDUSTRY THAT THE GOC COULD, IN FACT, IMPOSE THE NECESSARY DISCIPLINE ON THE PROVINCES TO REVERSE THE TREND TOWARD REQUIRING A GREATER DEGREE OF PROCESSING WITHIN THE PROVINCE. FURTHERMORE, WHILE IT WAS PROVINCIAL MEASURES THAT CONCERNED US MOST, CERTAIN FEDERAL MEASURES, FOR EXAMPLE, THE IMPORT AND EXPORT PERMITS ACT, COULD BE EQUALLY DAMAGING. WE VOLUNTEERED THAT WE COULD LIMITED OFFICIAL USE

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PROVIDE EXAMPLES OF PROVINCIAL ACTIONS BUT IT WAS THE POLICY ITSELF OF FORCING EVER GREATER PROCESSING WITHIN CANADA WITH WHICH WE WERE CONCERNED AND NOT NECESSARILY ONE OR TWO INDIVIDUAL MEASURES.

4. MISCELLANEOUS. THE CANADIAN DEL PROMISED THE AGRI-CULTURE OFFER PERHAPS THIS WEEKEND, AND PROMISED ESTI-MATED TRADE COVERAGE FOR THE EX-OUTS IN THEIR OFFER. A BILATERAL AT THE AMBASSADORIAL LEVEL IS SCHEDULED FOR MARCH 21.

5. COMMENT. WE WERE STRIKING AT THE HEARTLAND OF CANADIAN ECONOMIC DEVELOPMENT AND COMMERCIAL POLICIES IN DISCUS-SING THE PROCESSING ORES AND METALS. THERE WAS NO MIS-TAKING THAT WE CONSIDERED THIS TO BE THE CENTRAL ISSUE. WE DISCUSSED SUPPLY ACCESS IN THE COMMODITY RATHER THAN GENERAL CONTEXT AS THE CANADIANS HAD URGED US TO DO. HOWEVER, THEIR OBVIOUS RELUCTANCE TO GET INTO THE TOUCHY PROVINCIAL ISSUE WITHOUT IRONCLAD ASSURANCES THAT THE U.S. WOULD ACCEPT ALL CANADIAN SECTDRAL OB-LIMITED OFFICIAL USE

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JECTIVES, RAISES DOUBTS ABOUT CANADA'S WILLINGNESS TO DO ANYTHING OF CONSEQUENCE ON THE SUPPLY ISSUE. END COMMENT.

6. DRAFTED BY MALISH. CULBERT

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